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TO RUEHC/SECSTATE WASHDC PRIORITY 2399

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY

RUCNCIS/CIS COLLECTIVE PRIORITY

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RUEHAK/AMEMBASSY ANKARA PRIORITY 4885

RUEHBJ/AMEMBASSY BEIJING PRIORITY 2651

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RUEHIT/AMCONSUL ISTANBUL PRIORITY 3129

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C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000291

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E.O. 12958: DECL: 03/03/2019

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SUBJECT: TURKMENISTAN: WINTERSHALL MANAGER REPORTS LATEST
ON ENERGY DEVELOPMENTS

Classified By: DCM Sylvia Reed Curran for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: German energy company Wintershall's general manager, Kal Sandhu, talked with poloff on March 2 about the company's failure in 2008 to find hydrocarbons in two Caspian blocks. Although Wintershall continues to talk to Turkmen officials about onshore work, the discussions have made no progress. Sandhu shared news that the Turkmen government may soon sign a PSA with German energy company RWE Dea for Caspian block 23 and details about Gaffney, Cline and Associates' role as project manager for the development of Yolotan. Sandhu expressed amazement over Iran's agreement to build and pay for a pipeline connecting Yolotan to Iran's infrastructure. Construction of such a pipeline will take time, however, and developing this major field to a point where it can start producing gas for a new pipeline is still years away. END SUMMARY.

TOUGH TIMES FOR WINTERSHALL

¶2. (C) Sandhu said Wintershall still holds a PSA for blocks 11 and 12 in the Caspian. Last year, however, it managed to drill two dry holes, and is uncertain about the PSA's future.

The German energy company drilled one of the holes. When it was determined to be dry, the company initially wanted to cancel drilling plans for the second site, which company geologists had assessed as having an eight percent chance of striking hydrocarbons. Sandhu said that the company generally does not spend money drilling at sites that are assessed as having less than a 20 percent chance of success. Turkmen government officials, however, stepped in and pressed the company to drill at the site anyway, and after considering the benefits to the business relationship, the company relented and drilled at the site. This site, too, was found to be dry. The company is now assessing next steps, he said. Meanwhile, Sandhu continues to talk with Turkmen government representatives about onshore work, but the discussions have made no progress, he said.

POSSIBLE NEW CASPIAN PSA WITH GERMAN COMPANY

¶3. (C) Sandhu said that the Turkmen government is preparing to sign its first production sharing agreement since 2007, with a German company. The company, RWE Dea, based in Hamburg, will be signing a PSA for Caspian block 23, he said.

(NOTE: RWE is a gas exploration and development company with significant international experience in four North African countries, as well as Europe, including work in the offshore shallows north of Germany. END NOTE.) Sandhu said developing this block would be "high risk", because it is not considered to have significant potential. None of the major companies, for example, showed any interest in it. RWE, however, may have additional plans in Turkmenistan beyond the block, Sandhu suggested, and may be primarily interested in onshore work. He added that the company is also currently playing a role in the development of the Nabucco pipeline.

GAFFNEY, CLINE AS PROJECT MANAGER

¶4. (C) Sandhu commented also on the recent visit of representatives of Gaffney, Cline and Associates, the firm that performed last year's audit of Turkmenistan's hydrocarbon fields at Yolotan, Osman and Yashlar. He claimed that GCA will be acting as a project manager for Yolotan, assisting the government in overseeing the activities of the army of service companies that are being contracted to develop the field. Sandhu observed that the Turkmen government's decision to develop its onshore fields through agreements with service companies was modeled on the Russian

ASHGABAT 00000291 002 OF 002

government's similar path in the early 1990s. He said the Russian government eventually learned that it could not manage the projects effectively, and ultimately had to bring in the large IOCs to boost production with their expertise and technology.

YOLOTAN AND IRAN

¶5. (C) The Wintershall manager expressed amazement at the Turkmen government's February decision to sign a major development contract with the government of Iran. He described it as a deal that left both parties very pleased. Turkmenistan had found a partner similar to the Chinese company CNPC, to engage in development work on the Yolotan field at cut-rate prices. Iran's agreement to build a new gas pipeline connecting Yolotan's infrastructure to Iran's existing transportation systems, and foot the bill for it, demonstrates what a sovereign state can agree to, as opposed to a private company, he said. Economic factors are not the only consideration, he added. (NOTE: Iran has, since 1997, received about 8 bcm per year from western Turkmenistan via a pipeline that parallels the Caspian coast down into northern Iran. Although that pipeline has a 14 bcm capacity, it has never moved that much. END NOTE.)

¶6. (C) Sandhu opined that both Iran and Turkmenistan saw this deal as win-win: Iran's goals were to increase its import of Turkmen gas, and increase the reliability of delivery by developing an additional transit route from a different source. The Turkmen wanted to increase gas exports and diversify their transit options, he said. He claimed that the Iranians agreed to pay the same price the Russians are paying per tcm for the gas that eventually will flow through the new pipeline. (NOTE: Turkmen and Iranian press reported that the February 2009 deal will secure another 10 bcm of natural gas for Iran, once construction of the new pipeline is completed. END NOTE.)

¶7. (C) COMMENT: It is unclear where Iranian contractors will build the new pipeline, but we would surmise that it will extend from Yolotan south and west to connect with existent gas pipeline infrastructure east of Mashhad, a distance of about 160 kilometers. Construction of such a pipeline would be the final stage of a development process

that is just getting underway at Yolotan, however, and production that will feed this potential pipeline is likely years away. END COMMENT.

MILES